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## MEMORANDUM

**Date:** September 30, 2004  
**To:** Honorable City Council  
**From:** Joseph L. Harris  
Auditor General   
**Subject:** Review of Ferguson-Owned Company Contracts

This memorandum is in response to City Council's request that the Office of the Auditor General (OAG) conduct an investigation into alleged corruption in the contracting process with reference to Mr. Ferguson and the following Ferguson companies: Ferguson Enterprises, Excel, Ferguson Enterprises of Detroit, and City Contracting and Demolition.

It was alleged a contractor was not awarded a contract on which it was the low bidder because the contractor would not agree to accept a Ferguson-owned company as a sub-contractor. City Council requested the OAG report as to whether contractors are being pressured to deal with the Ferguson companies and to provide a list of all contracts in which the Ferguson companies are involved. (A representative of the company making the original allegation has since stated the company would like to drop any complaint or allegation made.)

We were unable to determine whether companies were pressuring contractors to accept Ferguson-owned companies as subcontractors. We sought a list of all contract recipients for whom Ferguson is currently working as a subcontractor, in order to determine the Finance Department's Purchasing Division method of allowing work by subcontractors. We found:

- The City of Detroit does not have any centralized record keeping or oversight of subcontractors.
- The City's financial system, Detroit Resource Management System (DRMS), tracks only contract information between the City of Detroit and its vendors.
- Contracts usually specify contractors employing subcontractors receive prior approval of the subcontractor from the Department Director. Additionally, the contractor is required to ensure the subcontractor meets all of the contractor's contract conditions, including Detroit-based business and other special designations. The Purchasing Division does not track compliance with these requirements.
- The Human Rights Department is in the process of implementing a system that will track subcontractor awards, for their Detroit-based, Small and Minority & Women-Owned Business Program Certified Business Register. The system is being implemented on a go-forward basis from January 2003. The Human Rights Department found no contracts with a Ferguson-owned company listed as a subcontractor. Human Rights personnel indicated the information in the system is not presently complete.



We also contacted Ferguson Enterprises to obtain a list of contracts with the City for which Ferguson Enterprises serves as a subcontractor. Ferguson Enterprises was uncooperative when asked to provide this information.

In conclusion, the OAG was unable to ascertain whether anyone is pressuring contract recipients to hire Ferguson-owned companies as a subcontractor. Contract recipients using Ferguson-owned companies as a subcontractor could not be identified because City policies do not require that subcontractors be tracked centrally, and subcontractor information is not recorded in the City's financial and contract systems. Our review of the contracts Ferguson-owned companies were awarded provides no evidence the awarding of these contract skirted the competitive bidding process.

We recommend the City of Detroit's Purchasing Ordinance be amended to include language requiring the monitoring of subcontractors. This could be done through the Contract Information Tracking System (CITS) database currently being used by the Human Rights Department or a tracking program set-up in the Finance Department, Purchasing Division. Contactors should be required to report all subcontractors to the department with which they have a contract; City departments should be required to report all subcontractors to the department charged with tracking subcontractors.